

Before the
Federal Communications Commission
 Washington, D.C. 20554

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 FEDERAL COMMUNICATIONS COMMISSION
 OFFICE OF THE SECRETARY

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. <u>96-262</u>
)	
Price Cap Performance Review for Local Exchange Carriers)	CC Docket No. 94-1
)	
Interexchange Carrier Purchases of Switched Access Services Offered by Competitive Local Exchange Carriers)	CC B/CPD File No. 98-63
)	
Petition of U S West Communications, Inc. for Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA)	CC Docket No. 98-157
)	

REPLY OF NETWORK ACCESS SOLUTIONS TO OPPOSITIONS

No commenter challenges NAS's core contention that the FCC acted arbitrarily and capriciously in setting the trigger at 15 percent for Phase 1 transport pricing relief.¹ Agency action is arbitrary and capricious unless the agency articulates "a rational connection between the data found and the choice made."² The FCC failed to articulate a rational explanation for why its choice of a 15 percent trigger satisfies its goal of ensuring sufficient competitive entry to deter predatory

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1. In addressing NAS's contention, SBC and BellSouth argue that the use of collocation as a proxy for competitive entry is well supported in the record. Comments of SBC at 2-3; Comments of BellSouth at 2. However, NAS does not take issue with the choice of a proxy. It takes issue with the choice of the trigger level of this proxy. On this issue, SBC and BellSouth are silent.

 2. *Motor Vehicles Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983). An adequate explanation of the basis and purpose of an agency's rules is also a basic requirement of the Administrative Procedure Act. *See ILGWU v. Donovan*, 722 F.2d 795 (D.C. Cir. 1983), interpreting Section 4(b) of the APA, 5 U.S.C. § 553(c).

pricing. While the Commission recited some data regarding the level of collocations and fiber deployment in Norfolk, it made no attempt to relate that data to its stated goal. On reconsideration, the Commission must perform an analysis of the level of sunk investment necessary to prevent predatory pricing, as well as the relationship between sunk investment and its proxy, the breadth of central office collocations. NAS believes that the evidence shows that Phase 1 triggers of 30 percent for high capacity transport and 50 percent for low capacity transport are necessary to achieve the Commission's goal of ensuring that the market for transport is free from predatory pricing assuming Phase 1 pricing relief.

Moreover, although Bell Atlantic opposes the Phase 1 triggers for transport that NAS proposed on the ground that their adoption "may make it impossible" to gain Phase 1 relief since more than 40 percent of Bell Atlantic's wire centers have very little transport demand,³ this fact, even if true, is irrelevant. The fact that more than 40 percent of Bell Atlantic wire centers may have very little transport demand is irrelevant since it is likely that most wire centers with no such demand are *outside* of MSAs whereas the Phase I triggers apply only in MSAs.

ILECs also oppose the NAS recommendation that the Commission subject low-capacity transport to the higher Phase I trigger applicable to end-user channel terminations rather than high-capacity transport on the ground that its adoption would "add a needless layer of complexity" to the Commission's two-segment scheme.⁴ But their opposition on this basis is misplaced. Different triggers would apply to just two market segments under both the NAS proposal and the FCC's initial order. Under the NAS proposal, one segment would consist of central office channel terminations

3. Bell Atlantic Opposition at 3.

4. Bell Atlantic Opposition at 5; Comments of SBC at 3; Comments of U S West at 8-9.

and high-capacity transport (DS3 and higher) and the other would consist of end-user channel terminations and low-capacity transport (below DS3). Under the FCC's initial order, one segment would consist of central office channel terminations and all transport and the other would consist of end-user channel terminations.

Not only is there no merit in the ILECs' stated reason for opposing the manner in which NAS proposes to divide the market, the two-market segment approach suggested by NAS plainly is more rational than the two-market segment approach adopted in the initial order. The Commission adopted different triggers for two separate market segments because it recognized that demand for certain services (those for which a lower trigger is appropriate) is concentrated in a few central offices, whereas demand for other services (those for which a higher trigger is required) is more geographically dispersed. No one commenting on the NAS proposal disputes the NAS assertion that demand for low-capacity transport is almost as geographically dispersed as demand for end-user channel terminations. For example, CLECs providing DSL service often collocate broadly in the MSAs they serve, and a CLEC's transport in many central offices will be below DS3 capacity until its customer base justifies the use of DS3 capacity.⁵ For example, NAS is collocated in 360 central offices in the nine MSAs where it provides CLEC service.

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5. Ignoring the use of low-capacity transport by CLECs, ILECs argue that NAS's concerns regarding low-capacity transport are satisfied because ISPs and small businesses, the other two categories of low-capacity transport customers NAS identified, are end users. Comments of BellSouth at 5; Comments of U S West at 3. However, this argument proceeds from an incorrect factual premise. An end user purchasing special access obtains *both* channel terminations *and* transport (often below DS3 capacity). While the end-user channel termination portion of this service will be subject to the higher trigger level, the transport portion of this service could potentially be subject to Phase I relief long before any facilities-based competition is present unless the FCC raises the Phase 1 trigger applicable to low capacity transport.

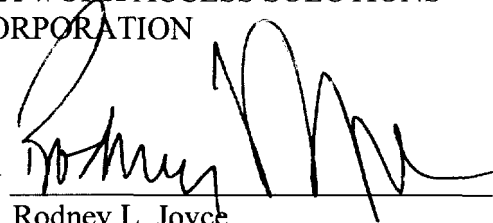
CONCLUSION

The Commission should revise its order in the manner requested by the NAS petition.

Respectfully submitted,

NETWORK ACCESS SOLUTIONS
CORPORATION

By

A handwritten signature in black ink, appearing to read "Rodney L. Joyce", is written over a horizontal line.

Rodney L. Joyce

J. Thomas Nolan

Shook, Hardy & Bacon LLP

600 14th Street, N.W., Suite 800

Washington, D.C. 20005-2004

(202) 783-8400

Its Attorneys

December 13, 1999

CERTIFICATE OF SERVICE

I hereby certify that I have, this 13th day of December, 1999, caused to be mailed by first class mail, postage prepaid, a copy of the foregoing Reply of Network Access Solutions to Oppositions to the following:

International Transcription Service*
1231 20th Street, N.W.
Washington, DC 20036

Gail L. Polivy
GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, D.C. 20036

Thomas R. Parker
GTE Service Corporation
600 Hidden Ridge, MS HQ-E03J43
P.O. Box 152092
Irving, TX 75015-2092

Gregory J. Vogt
Daniel J. Smith
Wiley Rein & Fielding
1776 K Street, N.W.
Washington, D.C. 20006-2304

Jeffrey A. Brueggeman
U S West Communications, Inc.
1020 19th Street, N.W., Suite 700
Washington, DC 20036

M. Ronald Sutherland
Richard M. Sbaratta
BellSouth Corporation
1155 Peachtree Street, N.E.
Suite 1700
Atlanta, GA 30309-3610

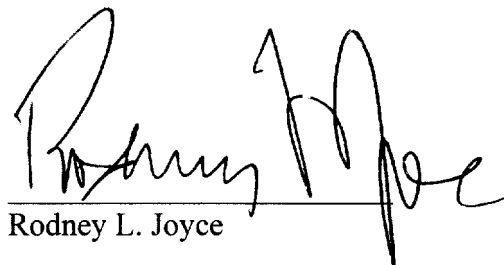
Alan Buzacon
MCI WorldCom, Inc.
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

Edward D. Young, II
Michael E. Glover
Edward Shakin
Joseph DiBella
Bell Atlantic
1320 North Court House Road, 8th Floor
Arlington, VA 22201

Mark L. Evans
Geoffrey M. Koineberg
Kellogg, Huber, Hansen, Todd & Evans
1301 K Street, N.W., Suite 1000 West
Washington, D.C. 20005

Lawrence J. Sarjeant
Linda L. Kent
Keith Townsend
John W. Hunter
Julie R. Rones
United States Telecom Association
1401 H Street, N.W., Suite 600
Washington, D.C. 20005

Alfred J. Richter
Roger K. Toppins
Michael J. Zpevak
Thomas A. Pajda
SBC Communications Inc.
One Bell Plaza, Room 3003
Dallas, TX 75202



Rodney L. Joyce